

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01
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P 101311Z FEB 77

FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 5108

INFO AMEMBASSY LONDON PRIORITY

C O N F I D E N T I A L GENEVA 0952

PASS STR FOR MIKE SMITH

LONDON PASS MIKE SMITH AND U.S. TEXTILE DEL

EO 11652: GDS

TAGS: GATT, ETRD

SUBJ: TEXTILES MFA RENEWAL

REF: A. STATE 26272, B. SMITH-PHELAN TELECON FEB 7

1. AS INDICATED REF B, QUESTIONS POSED REF A HAVE NO SIMPLE ANSWER. DIFFICULTY ARISES IN NOT KNOWING PRECISELY WHAT INTENTIONS ARE BEHIND THE, THUS FAR, VAGUE "DIFFERENTIAL GROWTH RATE" PROPOSALS AND, MORE IMPORTANTLY, WHAT RULES OF APPLICATION MAY BE CONTEMPLATED. CONSENSUS IN GENEVA IS THAT EC PROPOSAL, IN FIRST INSTANCE, IS AIMED AT STABILIZING AT CURRENT LEVELS TEXTILE IMPORTS FROM HONG KONG, TAIWAN AND KOREA BY APPLYING LOWER GROWTH RATES FOR THOSE COUNTRIES PRESENTLY ENJOYING A "LARGE SHARE" (UNDEFINED) OF THE MARKET. INDIRECTLY RELATED TO THIS PROPOSAL, OF COURSE, IS THE EC'S CONTENTION THAT "MARKET PENETRATION" CALCULATIONS SHOULD INCLUDE ALL IMPORTS FROM ALL SOURCES NOT JUST LOW
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COST/PRICE (DISRUPTIVE) IMPORTS WHICH ARE THE ONLY CLASS TEXTILE IMPORTS FALLING WITHIN THE PURVIEW AND PURPOSE OF PRESENT MFA.

2. BELIEVE THAT HONG KONG AND KOREA IF CONFRONTED WITH CHOICE OF NO MFA OR ONE WHERE THEY SUBJECTED TO DISCRIMINATORY GROWTH RATES WOULD TAKE PRAGMATIC COURSE OF

OPTING FOR LOWER GROWTH RATE SIMPLY IN ORDER PROTECT THEIR PRESENTLY FAT POSITION IN IMPORTING COUNTRY MARKETS. AT SAME TIME, THERE ARE PAKISTAN AND INDIA WHICH CERTINLY HAVE "LARGE MARKET SHARES" IN YARN AND FABRIC IN EC MARKETS. GIVEN THEIR PREOCCUPATION WITH UNCTAD/THIRD WORLD THEOLOGY, IT SEEMS UNLIKELY THEY WOULD "GO QUIETLY" WITH EC PROPOSAL.

3. MANY LDC'S IN SMALL SUPPLIER STATUS MIGHT INITIALLY SUPPORT EC DIFFERENTIAL GROWTH RATE CONCEPT, AT LEAST UNTIL THEY UNDERSTOOD MOTIVATION BEHIND EC PROPOSAL; I.E., TO LIMIT OVERALL GROWTH IN SENSITIVE AREAS. IN LIGHT EC'S PAST PERFORMANCE, SUSPECT THAT, IN END, THEY WOULD HAVE LITTLE CONFIDENCE IN EC'S PROMISE OF INCREASED MARKET SHARE TO COME OUT OF REDUCTION IN HONG KONG, TAIWAN, KOREA GRWOTH.

4. IN WHATEVER LIGHT THEY ARE CONSIDERED, THE EC PROPOSALS DIFFERENTIAL GROWTH RATES BASED ON "LARGE MARKET SHARE" OR "HIGH LEVEL OF MARKET PENETRATION" POSE SERIOUS PROBLEMS FOR USG. AT SOME POINT IN CONSIDERATION OF EC'S PROPOSALS "LARGE SHARE MARKET" AND "HIGH LEVEL MARKET PENETRATION" WILL HAVE TO BE DEFINED AND QUANTIFIED. EXPORTING COUNTRIES WILL FORCE SUCH AN EXERCISE. AS U.S. REP SEES IT, NO MATTER HOW THIS COMES OUT THE U.S. LOSES. EC REPS (AND CANADIANS) HAVE ARGUED ALL OVER TOWN THAT LOW LEVEL IMPORT PENETRATION U.S. MARKET, COMPREHENSIVE U.S. AGREEMENTS AND HIGH U.S. TEXTILE TARIFFS CLEARLY JUSTIFY TRANSFER OF
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LARGER SHARE TEXTILE IMPORT BURDEN FROM EC (AND CANADA) TO U.S. NEEDLESS SAY, THIS ARGUMENT WILL BE ENTERTAINED BY SOME DEVELOPING EXPORTING COUNTRIES. A DIFFERENTIAL GROWTH RATE SYSTEM OUTSIDE THAT PROVIDED IN PRESENT MFA, IF ACCEPTED BY U.S., WOULD CREATE MANIFEST DIFFICULTIES FOR U.S. IN NEGOTIATING FUTURE BILATERALS. SOME MIGHT ARGUE THAT U.S. TOO COULD BENEFIT FROM DIFFERENTIAL GROWTH RATE SYSTEM AND, WHATEVER THE RULES, WE COULD PROBABLY MAKE A CASE ON A FEW TEXTILE ITEMS, BUT IN THE VAST MAJORITY OF TEXTILE ITEMS WE PROBABLY WOULD NOT QUALIFY ON ANY "IMPORT PENTRATION" LEVEL SUGGESTED BY THE EC.

5. FOREGOING, HOPEFULLY, GIVES SOME IDEA OF THE COMPLEXITIES SURROUNDING THE EC'S PROPOSALS. IN U.S. REP'S VIEW, IT IS ESSENTIAL THAT WE KNOW SOONEST AND WITH THE HIGHEST DEGREE PRECISION POSSIBLE JUST WHAT IT IS THE EC IS PROPOSING; CERTAINLY BEFORE WE GET IN ANY SORT OF MULTILATERAL "NEGOTIATING" POSITION. U.S. REP LOOKS

FORWARD DISCUSSING THESE ISSUES IN DEPTH WITH U.S. TEXTILE TEAM IN GENEVA. CATTO

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Message Attributes

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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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